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Information Bulletin **No. CA-2003-043**

To: All Employees

From: DSD, Support Services

Subject: Open Season for Flexible Spending Accounts - May 19 to June 20, 2003

The Office of Personnel Management (OPM) will be implementing the second pre-tax benefit called Flexible Spending Accounts (FSAs) under the Federal Flexible Benefits Plan ("FedFlex"). The initial FedFlex benefit, Premium Conversion, was implemented in October 2000. The plan administrator for the FSAs will be **SHPS**, based in Louisville, Kentucky. During this open enrollment period, employees may make an election and receive reimbursements for expenses incurred on or after July 1.

What are flexible spending accounts? They are accounts established that allow eligible employees to set aside pre-tax money to pay for certain kinds of expenses. With an FSA, you can reduce your taxes while paying for services you would have to pay for anyway. FedFlex provides two FSAs, a ***Health Care FSA (HCFSA)*** and a ***Dependent Care FSA (DCFSA).*** Enrollment is voluntary and no government monies will be used to fund this program.

A **Health Care FSA** allows pre-tax reimbursement of eligible medical costs not covered or reimbursed by insurance. Expenses must be tax deductible. Some examples include dental services, vision services and chiropractic care. Health insurance deductibles, co-payments, and coinsurance not reimbursed by another source are other examples. Participation is open to active Federal employees whose appointment allows for eligibility for Federal Health Benefits coverage. Reemployed annuitants are eligible to participate.

A **Dependent Care FSA** allows participants to be reimbursed on a pre-tax basis for child care or adult dependent care expenses that are necessary to allow the employee and his/her spouse to work or seek work. Eligible children must be age 13 and younger. A qualifying adult is a parent or a sibling, that is physically or mentally incapable of caring for him or herself and is claimed as a dependent on your income tax return. The expense must be necessary to allow the employee and if married, his or her spouse to work. A Dependent Care FSA may be used for adult day care; however, it cannot be used for nursing home expenses, or if the adult resides in another city.

All employees with qualified dependents may elect to enroll in the DCFSA except temporary employees with no fixed work schedule (WAE/when actually employed) whose tour of duty is six months or less.

The initial FSA plan year will be a short plan year that begins on July 1, 2003 and ends on December 31, 2003. All subsequent plan years will be from January 1 to December 31. Employees will have the opportunity to elect a HCFSA and/or a DCFSA for 2004 during health benefits open season, November 10 through December 8, 2003. The enrollment period each year will coincide with health benefits open season.

How do I enroll? Individuals will enroll directly with the FSA administrator, **SHPS**. There are two ways to enroll. One is a web-based enrollment at www.fsafeds.com, which will be available 24 /7. The second is by calling a toll free number 1-877-372-3337. A customer service representative is available Monday through Friday from 9:00am to 9:00pm EST.

How is this program going to be paid for? At this time, participants paying a monthly fee per account will cover the administrative costs. For the HCFSA, the fee will be $4 for every month that you participate. For the DCFSA, the fee will equal 1.5% of the entire amount you elect. In both cases, SHPS will compute the amount due for the plan year and deduct the fee from the employee's first claim for reimbursement of a covered expense.

Attached is a leaflet from OPM and SHPS, which provides a general summary of Flexible Spending Accounts. Additional information is available at the Web site listed above and at OPM's Web site www.opm.gov/insure/pretax . Your human resource specialist will answer general questions for you on this program, however, it is recommended that you contact SHPS first as they are the FSA administrator and expert on the Federal FSA program and have firsthand knowledge of the latest developments relating to this program.

Participation in FSA is not automatic. Employees must make an election each and every year. Employees will make two "benefit elections", one whether they wish coverage in one or both of the Fed Flex FSAs and the annual amount they agree to have deducted from their pay during the plan year for deposit into their FSA accounts. The benefit elections are irrevocable once the plan year has begun, unless the employee experiences a qualifying life event. These include change in marital status, change in number of dependents and change in employment status that affects your eligibility for benefits. The contractor will be responsible for determining if a life event has occurred.

How do FSAs work? An employee chooses to reduce pay for the plan year by a selected amount through allotment. The agency agrees to put that amount into the employee's FSA account. Payroll deducts equal payments of the annual allotment that you elect, you will pay for an eligible expense out of pocket and then submit a claim for reimbursement from SHPS , who is the FSA administrator, your claim is processed and a reimbursement is issued. Medical and dependent care accounts are separate.

Minimum and Maximum Amounts. For the HCFSA, employees may elect to contribute a maximum of $3,000 per plan year. For the DCFSA, an annual maximum of $5,000 may be elected. For both benefits, the minimum election must be $250.

To be eligible for reimbursement under an FSA, the expense must be incurred during the plan year. Because of the tax advantages of FSAs, the IRS has strict guidelines for its use. If an employee does not incur eligible expenses during the plan year, which equal the annual amount they have contributed to their FSAs, they will lose the balance remaining in their account(s) when the plan year ends. There is a 120-day time period for filing a claim for reimbursement for Eligible Health Care Expenses following the end of the plan year and a 90-day time period for filing a claim for reimbursement of Eligible Dependent Care Expenses. Any unclaimed allotments after this time period will be forfeited.

Questions regarding this bulletin may be directed to Angie Dailly, Human Resources at (916) 978-4476.

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Attachment